

Auditing in crisis: the fallout from the sorry tale of ...

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The Financial Reporting Council has decided that KPMG have no case to answer with regard to the quality of their audit of HBOS signed off immediately prior to the collapse of the bank in 2008. According to the [Guardian report](#):

The FRC concluded "there was not a realistic prospect that a tribunal would make an adverse finding against KPMG in respect of the matters within the scope of the investigation". KPMG said it was pleased with the findings.

"The firm's work did not fall significantly short of the standards reasonably to be expected of the audit, the test that a tribunal would apply," the FRC said.

The implication is obvious: Tim Bush, head of governance and financial analysis at Pensions & Investment Research Consultants (who I advise) made the appropriate connection talking to [The Telegraph](#).

"Clearly there needs to be a full explanation as to why the FRC hasn't proceeded," he said. "The big question is whether the FRC's own standards were a contributing factor."

It is known, after all, that this issue was discussed by the auditors of all banks in 2008. This was revealed in parliamentary interrogation of them some years ago when it was also hinted that assurances on bail outs were, in effect given, and were relied upon. But that was not enough in the case of HBOS and it was not referred to in the accounts.

In that case questions as to whether there was an unspecified standard in play here, or whether the standards were simply inadequate, or whether the FRC feels it can simply ignore obvious attention to an obvious failure referred to it by a parliamentary committee are all in play because what is beyond any reasonable doubt is that there was an audit failure.

In that case I sincerely hope that this issue returns to parliament. Auditing deserves to be in crisis over this issue. The Treasury Committee needs to bring that crisis specifically into the open, and add the role of the supine FRC into its remit. Then this failure may be subject to appropriate review. Right now it is not.

In the meantime I recommend Atul Shah's book on the whole issue.